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Insurance  
Law  
Service



Submission to Good Shepherd Microfinance regarding its  
Microinsurance Discussion Paper

by the

**Insurance Law Service**

(a project of the Consumer Credit Legal Centre (NSW) Inc)

The Consumer Credit Legal Centre is a community legal centre that also runs the Insurance Law Service (“ILS”). The ILS is funded by the Legal Aid Commission of NSW and the Federal Government through the Community Legal Services Program.

The Insurance Law Service (“ILS”) has been providing advice and assistance to Australian consumers in relation to insurance since July 2007. In that time our solicitors have provided advice in the course of over 13,500 calls, and opened more than 550 casework files. Advice is provided free of charge on a 1300 number available throughout Australia. While based in NSW, the ILS is a national service and more than 68% of calls taken in the 2011/2012 financial year were from interstate, including 20% from Qld, 25% from Victoria and 10% from Western Australia.

We have a dedicated website ([www.insurancelaw.org.au](http://www.insurancelaw.org.au)) which contains specific information about flood/storm and bushfire related claims, general information about claiming on your car or home insurance (in Arabic, Chinese and Vietnamese in addition to English), and a range of other resources such as sample letters for use by consumers in raising a dispute with their insurance company. The ILS also provides training for other community sector agencies on insurance issues, particularly trainee financial counsellors.

Thank you for the opportunity to provide a submission to Good Shepherd Microfinance regarding its Microinsurance Discussion Paper.

## **Our responses to the Consultation Questions**

### **Section 4 Questions: Benefits of Insurance**

- **What other benefits does insurance offer?**

Agree with the benefits outlined in the Discussion Paper

- **What are the insurable events that cause people to either a) become impoverished or b) suffer significant setbacks in their economic well being?**

There are a number of insurable events that cause economic hardship including:

- a. Loss or damage to home
- b. Loss or damage to a vehicle (needed to get to work or used in earning income)
- c. Illness
- d. Unemployment
- e. Total and permanent disability
- f. Business failure
- g. Damage to home contents
- h. Travel costs

- **Are there possible disadvantages for low-income Australians being insured?**

Yes there are a number of possible disadvantages for low-income Australians being insured. A number of insurance products deliver very little (if any) benefit for the cost of getting the insurance, especially to low income Australians. Some times just paying the premiums for these some of the insurance products listed below can cause financial hardship.

The unsafe insurance products are:

- a. Funeral Insurance

Many consumers (particularly low income consumers) are attracted to funeral insurance to avoid the need to inconvenience their family with funeral costs. The premiums for the funeral insurance start out relatively low and possibly affordable but rise as the insured gets older. The premiums inevitably become too high for anyone living on a Centrelink Aged Pension to afford.

As funeral insurance premiums rise, many consumers will become forced to decide between paying for basic living expenses and paying their funeral insurance premiums. Many are eventually forced to stop making payments and cancel their policy with no refund of the premiums paid. Even worse, some aged pensioners go without basic living needs to enable them to afford their funeral insurance premiums as they would be embarrassed to have the policy cancelled after they have already paid so much into it and/or cannot accept the significant financial loss associated with cancelling the policy.

In most cases the low income consumer would have been a lot better off if they had simply saved some money to help their family with funeral costs.

- b. Consumer Credit Insurance

Consumer Credit Insurance is often offered to consumers when they get a loan, and mainly protects consumers from the risks of failing to make timely loan repayments because of unemployment or disability. The successful claim rate for this type of insurance is very low. This is often because it is sold to low income Australians who are already unemployed or on the Disability Support Pension and are thus excluded from being eligible to claim! The premiums for this insurance product can make a loan a lot more expensive for the

consumer, increasing the repayment burden for low-income Australians without giving them any additional benefit.

c. Gap insurance

This is another type of Consumer Credit Insurance that is obtained when a consumer gets a car loan. The insurance is meant to cover the gap between the value of the car and the loan in the event the car is written off. Again, the success rate for claims under this type of insurance is low and the impact on the affordability of the loan can be significant.

d. Insurance Products with Rising Premiums

Other types of insurance that disadvantage low income Australians are the rising premium insurance products. When someone is on a fixed low income it gets more and more difficult to afford to make rising premium payments. ILS submits that in many cases had low-income consumers known that the premiums were going to become unaffordable they would not have signed-up for the insurance policies in the first place. Insurance products where this is a consistent problem include:

- Life insurance
- Private health insurance
- Accident insurance

*A key issue for low income Australians and insurance is determining whether the premiums will be affordable for the required term of the insurance product. Consumers currently are not given this vital information.*

### **Section 5 Question: The Problem**

- **How can we better understand the issues of noninsurance, underinsurance and exclusion in Australia more generally, but especially among low-income Australians?**

a. Noninsurance

In ILS's view, the underinsurance, noninsurance and exclusion issue for many Australians has very little to do with financial literacy, and mostly to do with unaffordability. Insurance cannot be a higher priority than basic living expenses. For example, many people do not insure their home and contents because the premiums are not affordable. Especially for consumers who are in risky areas (eg. flood) where premiums are usually completely unaffordable.

Although we believe unaffordability is the biggest barrier facing low-income Australians we submit there are several other reasons why consumers may not insure their home and contents:

- Their house is slightly damaged and they cannot get building insurance. If they said their house was not damaged to get the insurance they would be unable to claim on the insurance due to non-disclosure. Many low-income earners do not have sufficient income to keep their property in good order;

- There is no point getting contents insurance as they leave the doors open (eg. so kids can get in when they get home from school); and
- People with criminal convictions or who are bankrupt find it very difficult if not impossible to get insurance (or some types of insurance).

#### b. Underinsurance

A major problem for consumers is that it is very difficult for them to estimate replacement cost. The insurance industry generally does not offer replacement cover policies and competition has failed to produce innovation in this area. With car insurance it is very difficult to determine the value of the car and almost impossible to replace a car with the insurance payout. Another problem is that consumers are sceptical about the calculators provided for insurance provided by insurance companies. Consumers are concerned that the calculators seek to over-insure so consumers have to pay higher premiums.

Finally, the problems of noninsurance, underinsurance and exclusion have to be considered in the context of the following three problems:

- Premium affordability and rising premiums
- Structural problems that lead to exclusion
- Structural problems that lead to underinsurance

*ILS recommends that getting the following information from Insurance companies would help to understand the structural problems:*

- *What reasons do insurance companies give for why people cannot get insurance? (ie. what are the main exclusions?)*
- *What are the insurance coverage rates in flood risk areas?*
- *What are the cancellation rates due to non-payment of premiums?*
- *What are the claim refusal rates due to a pre-existing defect?*

### **Section 9 Question: Current Australian Context**

- **What roles can various stakeholders play to increase access to insurance for low-income Australians and how can they work together?**

All stakeholders should be working together on a regular basis. This should include:

- c. Setting agreed objectives/outcomes
- d. Setting tasks for stakeholders
- e. Regular meetings and reports against the objectives

We note in this context that more low-income Australians taking up insurance is not necessarily a sign of success – the insurance must be useful (provide value for money, cover real risks and result in largely successful claims) and must be sustainable in that people are able to afford the cover over the longer term.

## **Section 10 Questions: Industry Barriers**

- **How can these barriers be overcome? And what roles can various stakeholders play in overcoming these barriers?**

The insurance industry could:

- a. Align premium repayments with pension day
  - b. Make flexible arrangement to catch up premiums when a premium is not paid due to financial hardship
  - c. Design products which provide better value for low-income Australians
  - d. Consider low-income insurance as a part charitable project or in the alternative a non-profit making project
- **Any other barriers?**

No.

- **With regard to legislation and regulation, how could current arrangements obstruct or assist product development for and delivery to low-income policy holders?**

ILS is unable to comment on this point.

- **Are there any international experiences that could be replicated in Australia to overcome these barriers?**

Recent research by Biener & Eling gives a comprehensive international review of common problems and potential solutions to supply-side barriers in Microinsurance Markets. One of the international experiences that Biener & Eling consider to be a potential solution to these barriers is using a cooperative microinsurance architecture like that being developed in West Africa. A cooperative architecture could combine the advantages of both large centralised microinsurers and decentralised microinsurance distribution channels while limiting the disadvantages of each.

Biener, C., & Eling, M. (2012). *Insurability in Microinsurance Markets: An Analysis of Problems and Potential Solutions*. The Geneva Papers on Risk and Insurance Issues and Practice, 37(1), 77-107. Available at: <http://www.palgrave-journals.com/gpp/journal/v37/n1/pdf/gpp201129a.pdf>

- **If the industry is unable to provide affordable and appropriate cover for the low-income market due to cost or profit reasons, could the Australian Reinsurance Pool Corporation provide reinsurance or additional capital to guarantee such products are viable?**

ILS is unable to comment on this point.

## **Section 11 Questions: The Market**

- **Do the estimates we have made appear justified? If not, why not? And what would be a more realistic number?**

ILS is unable to comment on this point.

- **Do you believe this potential market is able to support targeted insurance products? If not, why not?**

I believe the current uninsured consumers are a large potential market that could be accessed through targeted insurance products and measures to improve affordability of premiums.

## **Section 12 Questions: Current Products**

- **Is it possible that an existing renters' policy could be appropriate for the target market or that one could be appropriate with minor changes? In the event that this is the case, could the policy be labelled as a specific policy for low-income Australians?**

It is more than possible that the existing policy options could be made appropriate with minor changes.

- **Is a premium such as those outlined above affordable for the target market? If not, what would be an affordable premium?**

Affordability for anyone receiving Centrelink NewStart Allowance is questionable because they are by definition below the poverty line. \$5-10 per fortnight may be affordable for other consumers living on higher Centrelink incomes.

- **What can be done to increase the access and uptake of both comprehensive and third party property motor vehicle insurance?**

ILS would suggest that a number of things can be done to assist consumers to access both comprehensive and third party property insurance:

- f. Make payments fortnightly so payments can be aligned to when Centrelink payments or when other income is received;
  - g. Arrange access to Centrepay for basic insurance products such as car and home for Centrelink recipients; and
  - h. Arrange more discounted or "basic" policies to increase affordability of premiums.
- **Are there any extant products that could be marketed to the low income market?**

The low income market currently uses a range of extant products. The main problem is affordability and making sure direct debits occur at the same time as the low income earner receives their pay.

- **Is third party property motor vehicle insurance appropriate for low income Australians?**

This is a difficult question. Arguably low income Australians are usually able to negotiate a release from insurance companies who represent the other insured driver. However, this only happens after much begging and stressful debt collection. It is appropriate in the circumstances for the low income driver to be released from the debt as they would not be able to afford to repay a large debt.. However, if the low income driver is in an at-fault accident with an uninsured driver they are often pursued vigorously by the other driver. This can cause a lot of stress and the low income driver is sometimes even made bankrupt.

In ILS's view, the vast majority of low income drivers would much prefer to have insurance cover to avoid the risks, stress and inconvenience of being uninsured in a car accident. The issue then for those low income drivers is whether the premiums are affordable. ILS would once again emphasise that third party insurance is unaffordable for many low income Australians.

- **How could home building insurance be made more affordable for low income households who own their homes?**

ILS submits that home building insurance that is over \$500 per year is too expensive for low-income Australians. Consideration should be given for a basic home building insurance product that covers extensive damage only. This matter would need to be negotiated with the home loan industry to ensure the basic insurance cover is adequate.

- **What alternatives to funeral insurance are available or possible?**

As stated above, ILS contends that funeral insurance as a product offers very poor value for money. If a consumer has any superannuation at all it can be accessed for the payment of funerals (the death benefit). Unfortunately the main market for funeral insurance is low income earners with no superannuation.

There are a number of alternatives to funeral insurance including:

- a. A high-interest savings account with regular small deposits (this would assist the family to pay for the funeral),
- b. Pre-paid funerals,
- c. Funeral bonds,
- d. Some people are entitled to funeral payments from the Department of Veterans' Affairs (DVA), their trade union, or their state or territory government, and
- e. Some low-income families can get a bereavement payment through the Department of Human Services.

In summary, any of the above options would present a much better alternative than buying funeral insurance that becomes unaffordable and cannot be claimed on.

- **Which of the above products would be the most essential for low-income Australians?**

ILS contends that gadget insurance and private health insurance are not a high priority. Gadget insurance is quite expensive given the depreciating value of the gadget. Australia has a very good public health system which means that private health insurance should not be a priority.

Life insurance is the only insurance that may be needed. However, it should only be a priority when the person insured has a partner and/or children. The most essential insurance is for the car and home.

- **How could different products be combined or bundled to reduce costs?**

ILS would argue that the essential insurance products already can be bundled with an insurance company with a discount.

- **What other insurance products could benefit low income Australians?**

None that ILS is aware of.

### **Section 13 Questions: Affordability**

- **How can premiums be reduced to improve affordability for low income Australians?**

ILS is unable to comment on this point.

- **What payment options and mechanisms could be used to make paying premiums easier for low income Australians?**

A number of measures can be taken:

- i. Basic lower cost products
- j. Fortnightly repayments
- k. Centrepay repayments
- l. Other options to pay other than direct debit eg. BPay, Post etc.
- m. Specific micro insurance products
- n. Discounts on premiums for Centrelink recipients

### **Section 14 Questions: Centrepay**

- **How can stakeholders collaborate to make Centrepay accessible for insurance premiums?**

An independent review of Centrepay is currently underway. We have submitted to the reviewer that certain types of essential insurance (ie. motor vehicle, home building and home contents insurance) should be included in the Goods and Services available for



payment through the Centrepay scheme. We support any of the arrangements proposed to make this viable. It is our experience that once Centrepay arrangements are put in place many consumers do not readily make changes (unfortunately to their own detriment at times). This flies in the face of the fears expressed by insurers that Centrepay will not represent a steady income stream.

- **Are there better options than Centrepay for facilitating easy periodic payments of insurance premiums?**

Teaching low income Australians basic financial literacy will give them the tools to ensure that priority payments are made first. The best way to make sure these priority payments are made consistently is to line up the payments with income received. The banks have allowed consumers enormous flexibility in making repayments so the repayments can be structured to align with income. The insurance industry has not made a corresponding innovation.

It is essential that:

- a. Consumers have a range of flexible payment period options including the ability to pay fortnightly to line up with when many Australians (including Centrelink recipients) receive income;
- b. Consumers have other options to pay other than direct debit to enable them to better manage their money; and
- c. Centrepay is available for Centrelink recipients so the premium can be paid out of the Centrelink income as a priority.

### **Section 15 Questions: Accessibility**

- **Could insurance with rent schemes be implemented in Australia? If so, how? If not, why?**

ILS cannot comment on this issue except to note that it should be feasible and further research should be conducted on this point.

### **Section 16 Questions: Community Finance**

- **Could community finance provide a viable distribution channel for general insurance products in Australia? If so, how? If not what are the barriers?**

While this sounds like a good idea, ILS is concerned about community finance agencies acting as insurance brokers.

- **Are there other non-traditional distribution methods that could work in Australia?**

ILS would suggest that a better solution may be to set up a website and a phone number that is independently operated and targeted at low income people to provide information on available products.

- **How could community organisations refer people to a distribution channel?**

See above.

### **Section 17 Questions: Potential Regulatory Barriers**

- **What other potential regulatory barriers exist?**

ILS has no comment on this point.

- **How could the barriers identified above and other potential barriers be addressed?**

ILS does not agree that good consumer protection legislation is a barrier to innovation in relation to basic products for low income Australians. ILS notes that the banking industry (which is highly regulated) has innovated in relation to basic banking products for a number of years now. Low income and otherwise disadvantaged consumers need good consumer protection regulation to ensure they are not exploited. ILS finds the regulatory barrier argument to be disingenuous.

### **Section 18 Questions: Understanding Insurance**

- **What roles can various stakeholders, including governments, industry and community organisations play in increasing insurance understanding?**

While there is a great deal of information on the internet about insurance it does not really deliver the information consumers need. The real information consumers need is:

- a. Specific information on coverage and comparisons of coverage with price information,
- b. Specific information on how to access insurance when at higher risk (eg. past conviction, bankruptcy, previous claims),
- c. Detailed information on options to make premium payments,
- d. Specific information on affordability and discount products, and
- e. How to handle financial hardship (eg. unemployment and difficulty paying premiums).

Thank you again for the opportunity to comment on the Microinsurance Discussion Paper. If you have any questions or concerns please do not hesitate to contact us.



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